



**Director of
Central
Intelligence**



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SITUATION REPORTS

IRAN

Ayatollah Khomeini's entourage has announced that he will delay his return until the airports in Iran are opened--probably no earlier than Sunday. Sporadic negotiations are continuing between Khomeini and Prime Minister Bakhtiar but there appears to be a wide gulf separating their positions.

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[redacted] Bakhtiar has suggested that Khomeini delay his return for several weeks and that elections be scheduled within the next three months to select an assembly to make changes in the constitution. Bakhtiar would remain as head of a caretaker government.

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Bakhtiar undoubtedly realizes that he risks provoking massive demonstrations and continued strikes if he does not allow Khomeini to return soon. Yesterday the government banned unauthorized demonstrations. If strictly enforced, this ban may well lead to violence. Bakhtiar is probably under pressure from the military, however, not to give in.

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Bakhtiar is trying to win popular support by appearing as the defender of the constitution. His statements and actions, however, indicate he is moving more and more into the military's camp, thereby eroding his claim to be an independent figure. Many of the progovernment demonstrators yesterday were probably military personnel.

Khomeini clearly wants to return to Iran soon in order to take hold of the situation, but he is a cautious person and the uncertainties are giving him pause. He probably also calculates that the threat of his return keeps the pressure on the Bakhtiar government and that he has little to lose by stretching out the suspense for several more days because the government and the Iranian economy remain paralyzed by strikes.

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// The continued refusal of many Iranian workers to return to their jobs in several key economic organizations reflects the increasingly influential role being played by highly politicized workers' councils. These councils, often made up of persons not employed by the organizations, have either taken over all decision-making or are strong enough to thwart any decisions taken by management without their approval. //

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In the critical oil sector, Khomeini's agent--the leader of the Liberation Movement of Iran, Mehdi Bazargan--apparently secured the agreement of many workers to return to their jobs in order to produce enough oil to meet domestic requirements. Many workers who did return have continued to be nonproductive. Management at the National Iranian Oil Company reportedly is unable or unwilling to make any substantive decisions without the approval of labor relations committees at the refineries. Most production facilities remain shut down and the US Embassy doubts that even routine maintenance is being done on inactive units.

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As a result of continuing problems in the oil sector, crude production has failed to rise above the 400,000 to 600,000 barrel-per-day level during the past few weeks. This level of output, combined with technical problems at the refineries and on at least one pipeline, probably are limiting the production of refined oil products to between one-half and two-thirds of domestic requirements.

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// The activities of the Central Bank, Bank Melli--the major commercial bank--the national power agency, the customs organization, Iran Air, and several other agencies, also are subject to the whims of workers' councils. Invariably, those councils are refusing to approve any payments to foreigners or foreign companies, a policy reinforced by the Central Bank's refusal to sanction any transfers of foreign exchange. As a result, both domestic and international business operations remain frozen. //

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BRIEFS AND COMMENTS

JAPAN: Policy on Vietnam

//Japanese Foreign Ministry officials expect China's Vice Premier Deng Xiaoping (Teng Hsiao-ping) to press for a stronger Japanese stand against Vietnamese actions in Indochina--and by implication against the Soviet Union--when Deng meets Prime Minister Ohira in Tokyo early next month. The Japanese reportedly plan to turn aside any Chinese attempt to invoke the antihegemony clause of the Sino-Japanese peace and friendship treaty as the basis for a joint approach toward events in Southeast Asia.//

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//To fend off Chinese pressure, Ohira and other leaders are certain to cite the actions they have taken since the Vietnamese invasion of Kampuchea. The government has made known its opposition to Vietnamese aggression by announcing a review of the economic package agreed to during Vietnamese Foreign Minister Trinh's visit to Japan last month.//

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//The Japanese have emphasized that their policy toward Indochina will remain in step with that of the member states of the Association of Southeast Asian Nations--Japan's most important economic partners in the region. The increase in Japanese aid to Thailand announced during Prime Minister Kriangsak's visit to Tokyo last week, for example, was designed to assuage Thai security concerns as well as to signal the priority Japan attaches to ASEAN's interests.//

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//Foreign Minister Sonoda reportedly called for a reassessment of Japanese policy toward the region in the wake of the Kampuchean conflict. Major policy changes are unlikely, but the government is certain to avoid too close an identification with China's anti-Vietnamese and anti-Soviet stand on Indochina.//

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ITALY: Communists Intend to Withdraw Support

Italian Communist Party chief Berlinguer is likely to launch a new attack on the Christian Democratic government today and to announce his party's intention to withdraw its parliamentary support. The Communist move will threaten the collapse of the government and greatly increase the possibility that an early parliamentary election will be called after a protracted period of maneuvering. There appears to be no consensus on an alternative formula.

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//If the Christian Democrats do not yield to Communist demands for a larger role in the governing process, the Communists--convinced that time is working against the party--are clearly prepared to risk an early election.//

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Although Christian Democratic leaders have declared their willingness to discuss differences with the Communist Party, they are not prepared to meet the party's demands and also seem willing to opt for a new election--particularly if the Communists could be blamed for the government's collapse.

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The smaller parties, notably the Socialist and Social Democratic, are strongly opposed to an early election in which they expect to do poorly. These parties are maneuvering desperately--against increasingly unfavorable odds--to work out an alternative governing formula.

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Uncertainty concerning the fate of Prime Minister Andreotti's government is likely to continue into next week when its proposed economic plan is scheduled for debate in parliament; Andreotti may announce his intention to step down on Monday when this debate begins. Christian Democrats have reportedly been seeking to maneuver the Communists into breaking with the government over the economic plan. They would blame the Communists for ignoring Italy's pressing problems and hope to gain a tactical advantage over them in any future election.

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IRAN: Nuclear Power Program Stalled

The president of Iran's Atomic Energy Organization has informed US officials that all nuclear power construction projects will gradually be shut down because of the current political turmoil and widespread economic disruption. The four reactors now being built will at least temporarily be mothballed.

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Shortages of material resulting from port strikes have already forced a halt to construction on the two West German nuclear power plants at Bushehr. The West Germans are reported to be making arrangements to evacuate about 2,800 of the 3,100 foreign employees working at the site. Construction at one plant was 70-percent completed before the stoppage; the other plant was about half finished. Iran had already paid 90 percent of the costs for the two projects. Work on the two French reactors under construction at Ahvaz--which are probably not beyond the site excavation phase--also has stopped, and French technicians will return to Europe.

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Prime Minister Bakhtiar's government apparently will dissolve the ineffectual Atomic Energy Organization, which it sees as a symbol of the Shah's overly ambitious nuclear power goals. Responsibility for nuclear power plant construction had been transferred in mid-1978 to the Ministry of Energy. Efforts will be made to relocate the Atomic Energy Organization's highly skilled personnel in universities.

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USSR: Effects of Fuel Crisis in Armenia

The Armenian Soviet Socialist Republic is bearing the brunt of the two-month halt in Iranian natural gas deliveries to the USSR. The resulting gas shortage totals nearly 1 billion cubic feet a day--about one-fourth of the area's energy consumption--and is forcing Moscow to convert gas burning facilities to oil, cut back in energy consumption, and manipulate energy exports.

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The halt in gas imports has forced industries and central heating plants in Armenia's major cities such as Yerevan to cut back sharply on heat supply. Neighboring republics--Georgia and Azerbaijan--are also feeling the effects of the fuel shortages during this colder than normal winter.

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Moscow, apparently not expecting a quick resumption of gas shipments, is instituting emergency measures to find fuel supplies. Underground gas storage reserves are being drawn down. Pipeline flows have been reversed bringing in gas from the north. In addition, electric power plants and boilers are being converted from gas to oil.

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The conversion of industrial boilers and heating plants from gas- to oil-fired systems is fairly simple technically but could take a month or more. Shortages of necessary valves, pumps, storage tanks, and skilled workers is delaying the conversion process. In contrast, many large power plants in the region are designed to burn either fuel and can be switched from gas to oil quickly.

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The substitution of oil for gas in the Transcaucasus Republics during this fuel crisis is likely to reduce oil exports from the Black Sea port of Batumi by about 40,000 to 50,000 barrels per day. The Soviets, however, will continue to honor their contracts for oil deliveries to the West and could offset any localized reductions by stepping up shipments from other nonaffected Black Sea ports.

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POLAND: Gierek-Wyszynski Talks

The main item on the agenda of the lengthy meeting on Wednesday between Polish party leader Gierek and Catholic Primate Stefan Cardinal Wyszynski was probably the visit in May of Pope John Paul II to celebrate the 900th anniversary of the martyrdom of Poland's patron saint, Saint Stanislaw. Although the regime would like to postpone the visit, the Pope has said publicly that it is his "duty" to come. The regime is unlikely to block the visit as it is well aware that massive civil disturbances would probably occur should it do so.

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The two Polish leaders, who last met 15 months ago, probably reviewed such matters as the Church's demands for greater access to the media and permits to construct new churches. The regime has not given ground on these or other issues. Probably also on the agenda was a discussion of the country's severe economic problems, now further aggravated by the severe weather that has crippled Poland in recent weeks.

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Wyszynski regards Gierek as the most capable person in the Polish leadership, and has supported the regime when Gierek appears threatened by either internal party wrangling or possible civic unrest.

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CHAD: Increased Political Tensions

The shaky alliance between Prime Minister Habre and President Malloum has been further imperiled by the reported arrest by Habre yesterday of two senior government officials. Habre supporters have also called for a general strike in Ndjamena. A showdown between Malloum and Habre has been rumored for weeks.

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Habre is probably using these maneuvers to gain more control of the government and may even feel confident enough to try to push Malloum aside. His military position improved sharply after his forces recently captured a rebel stronghold in eastern Chad. Habre may also believe he can count on the support of Ndjamena's predominantly Muslim population. Malloum, however, has resources of his own, including a numerically superior military force and the backing of Habre's arch-foe, gendarmerie commander Kamougue.

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France, Chad's major benefactor, sent additional security forces last Friday, reflecting Paris' growing concern that the Malloum-Habre coalition's days are numbered. The French have long advocated Muslim presence in the government but have become increasingly unhappy with Habre's behavior.

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Relations between Malloum and Habre have been uneasy since their reconciliation last August that called for greater Muslim participation in the government. The two leaders have been at odds over the timetable for integrating Habre's forces into the Chadian Army and the Prime Minister's demands for more power.

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SOUTH AFRICA: Stemming Capital Outflows

South Africa has moved to attract foreign capital and relieve recent speculative pressures against its currency. It has promised a gradual reduction in foreign exchange rules and regulations that have impeded the repatriation of capital by foreigners and announced increased flexibility in setting the rand's exchange rate against foreign currencies. The exchange rate will be carefully controlled to limit devaluation pressures. The government hopes these changes will regain the 5 to 6 percent economic growth rate averaged before 1975; growth has averaged only 1.9 percent annually since then. In recent years, South Africa's main source of foreign capital has been loans from international financial institutions. Liabilities to these institutions almost tripled between 1974 and 1977, reaching \$7.9 billion. Foreign confidence in Prime Minister Botha's government has weakened because of racial strife and economic sanctions, and officials hope the exchange reforms will induce foreigners to invest enough capital along with technical knowledge and entrepreneurship to produce a significant impetus to growth.

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SPECIAL ANALYSIS

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TAIWAN: Normalization Aftermath

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//Taiwan is reacting to the normalization of ties between the US and China with a mix of bitterness and hard-headed calculation. Top-level officials on Taiwan hope to retain as much as possible of the US connection and appear determined to delay implementation of unofficial relationships with the US.

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President Chiang Ching-kuo has made a determined effort to promote public unity and confidence in Taiwan's future. He has tried to convey an impression of effective government action to meet the crisis by holding emergency meetings of economic and military officials; by pledging to increase defense spending, seek modern arms, and achieve military self-sufficiency; and by reiterating that he will never negotiate with the Communists.

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Quick pledges by major foreign corporations and banks to continue doing business with Taiwan have reinforced government efforts to bolster public confidence. After initial jitters, Taiwan's stock market has stabilized. There have been no signs of unusual capital flight or real estate sales.

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The public has responded to both the situation and to the government's handling of it with an upsurge of patriotism. Except for the anti-US riots in Taipei on 16 and 27 December, the government has had no difficulty maintaining public order.

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One of the government's first responses to the US decision was to postpone the partial national legislative election scheduled for 23 December. Opposition politicians initially reacted with pledges of support for the government in the interest of national unity. Suspicion

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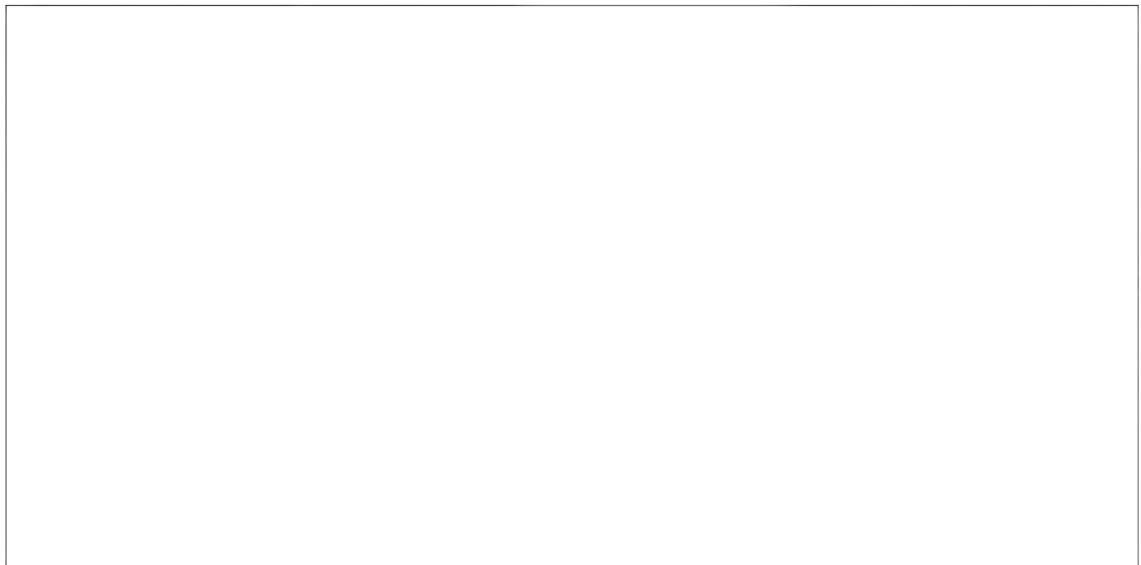
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of the government's intentions grew quickly in opposition ranks, however, and early this month the authorities broke up three meetings called to protest cancellation of the election. [REDACTED]

//Last weekend, the government arrested a prominent opposition figure, Yu Teng-fa, and his son and charged them with having contacts with an alleged infiltrator from the mainland. The decision to crack down came in early January when Chiang apparently agreed with the recommendation of his top security officials that the current situation calls for a minimum of public criticism of the government.// [REDACTED]

//The authorities must reckon with the possibility of a violent reaction should the crackdown become more widespread and stimulate an adverse public reaction. They are reported to be ready, however, to make further arrests if necessary. Other opposition figures are rallying to Yu's support, but have apparently not yet decided how to react.// [REDACTED]

Tactics Toward the US



Chiang has repudiated the widely discussed options of declaring an "independent" Taiwan, turning toward the USSR, or negotiating with China. His emphasis on the importance of continued ties with Washington suggests

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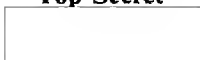
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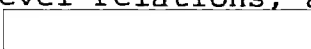
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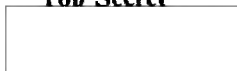
that even though Taipei will bargain hard, it eventually will compromise on the key issue of eliminating government-level relations, and perhaps on other issues as well. 

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Taipei may view the recent limited, unofficial public discussion it has fostered on the possibility of developing nuclear weapons as useful reassurance for a jittery domestic audience and as a lever to be used on the US. Although the motivation for developing nuclear weapons may now be stronger than previously, especially among defense production and research officials, Chiang has publicly repudiated this option. He will continue to be deeply influenced in this policy area by the necessity of maintaining vital links with Washington, including cooperation in the nuclear energy field. 

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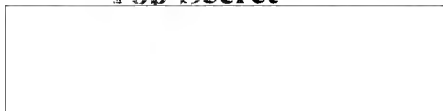


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